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Implementation of the Political Declaration and Plan of Action on International Cooperation towards an Integrated and Balanced Strategy to Counter the World Drug Problem: follow-up to the high-level review by the Commission on Narcotic Drugs, in view of the special session of the General Assembly on the world drug problem to be held in 2016 — Countering money-laundering and promoting judicial cooperation to enhance international cooperation

Strengthening international cooperation in preventing and combating illicit financial flows linked to drug trafficking, from the anti-money-laundering perspective

Report of the Executive Director

Summary

The present report has been prepared pursuant to resolution 58/6 of the Commission on Narcotic Drugs, entitled "Strengthening international cooperation in preventing and combating illicit financial flows linked to drug trafficking, from the anti-money-laundering perspective". In that resolution, the Commission requested the Executive Director of the United Nations Office on Drugs and Crime (UNODC) to report to the Commission at its fifty-ninth session on the progress made in implementing the resolution. The present report provides an overview of the progress made and the assistance provided by UNODC to Member States to implement the resolution since its adoption in March 2015, with reference to, inter alia, policy, legislative and institutional measures, technical cooperation, partnership-building, coordination and best practices.

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I. Introduction

1. The present report has been prepared pursuant to resolution 58/6 of the Commission on Narcotic Drugs, entitled "Strengthening international cooperation in preventing and combating illicit financial flows linked to drug trafficking, from the anti-money-laundering perspective". In that resolution, the Commission recalled General Assembly resolution 66/177, on strengthening international cooperation in combating the harmful effects of illicit financial flows resulting from criminal activities, in which the Assembly noted with interest the work undertaken in countering money-laundering within the framework of relevant specialized regional and international bodies. It also recalled its resolution 52/9, on strengthening measures against the laundering of assets derived from drug trafficking and related offences.

2. Resolution 58/6 builds upon previous resolutions adopted by the General Assembly and the Commission by focusing on the need to combat illicit financial flows linked to drug trafficking from the perspective of countering money-laundering. That comes amid growing concern that illicit financial flows from drug trafficking may have financed terrorist groups, including the Taliban, Al-Qaida and Islamic State in Iraq and the Levant (ISIL).[1] The need to combat illicit financial flows in order to improve sustainable development outcomes was prioritized by the international community in 2015 in General Assembly resolution 70/1, entitled "Transforming our world: the 2030 Agenda for Sustainable Development", and in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. Both of those documents contain reference to the importance of significantly reducing illicit financial flows.

3. Target 4 of Sustainable Development Goal 16 is to significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime. Thus, bearing in mind the nexus between illicit financial flows and drug trafficking, it is imperative for States to continue to enhance national, regional and international cooperation in order to reduce the risks posed by illicit financial flows.

4. In its resolution 58/6, the Commission requested the Executive Director of the United Nations Office on Drugs and Crime (UNODC) to report to the Commission at its fifty-ninth session on the progress made in implementing that resolution. The present report highlights the activities and measures taken by UNODC up to 31 December 2015 to support the implementation of the resolution. Such activities and measures include policy, legislative and institutional support, technical assistance, partnership-building, coordination and the sharing of good practices.

II. Cooperation, interaction and coordination

5. UNODC is currently working with the Analytical Support and Sanctions Monitoring Team established pursuant to resolution 1526 (2004) to develop a new methodology to target the funds that the Taliban and other terrorist groups affiliated with Al-Qaida receive from opiate trafficking in Afghanistan. That concept was the

[1] See Security Council resolution 1333 (2000).

subject of a joint briefing by UNODC, the Monitoring Team and the Combined Maritime Forces to the Security Council Committee established pursuant to resolution 1988 (2011) in November 2015. Opiate trafficking is considered by the Monitoring Team to be one of the leading sources of funds and financial expertise for the Taliban and poses strategic security and economic risks to Afghanistan and the neighbouring region. The new methodology seeks to use the unique chemical signatures of opium grown in areas where the Taliban are likely to profit from drug trafficking in order to identify the downstream supply chain as having benefited, directly or indirectly, the Taliban. The project will be developed by UNODC as an interdivisional effort. Much of the scientific methodology for the concept is drawn from other UNODC projects, including the Global Programme for Combating Wildlife and Forest Crime. The concept is at an early stage and operational capability and an associated technical assistance programme will be developed during a series of workshops in 2016, with an initial specific focus on the southern route for opiate trafficking to test the concept before expanding it to other opiate trafficking routes.

6. Inter-agency cooperation was emphasized at the thirty-ninth Meeting of Heads of National Drug Law Enforcement Agencies, Asia and the Pacific, held in Bangkok from 19 to 22 October 2015, and the eleventh Meeting of Heads of National Drug Law Enforcement Agencies, Europe, held in Brussels from 22 to 25 June 2015. At both meetings, recommendations were made concerning the timely exchange of information among law enforcement agencies and the importance of establishing inter-agency task forces that would harness the skills of several agencies. In that context, specific reference was made to the "Safe Mekong" initiative and the Asset Recovery Inter-Agency Network for Asia and the Pacific.

7. Inter-agency cooperation was further discussed at a meeting convened by UNODC in Kabul in October 2015, at which relevant agencies from across the Government expressed willingness to work under the Financial Transactions and Reports Analysis Center of Afghanistan for the coordination and provision of training on combating money-laundering and the financing of terrorism. At that meeting, all participating agencies agreed on the urgent need for the placement of two UNODC advisers to deliver technical assistance on combating money-laundering and the financing of terrorism under the country programme for Afghanistan.

8. UNODC hosted two international workshops, in Belarus (November 2015) and the Republic of Moldova (December 2015), which were attended by representatives from a range of agencies, the private sector and international organizations. Participants were trained in the UNODC financial disruption methodology, with scenarios focused on drug trafficking and transnational organized crime. During the workshop in Belarus, participants discussed a real case involving the use of virtual currencies for drug trafficking that could not be solved using traditional methods. They drew on their varied backgrounds and knowledge of the capabilities of their respective agencies to identify a wider range of financial disruption options, which could be used to reduce the ability of the drug-trafficking network to move and store its funds. During the workshop in the Republic of Moldova, a representative from one of the world's leading money service providers discussed a $20 million case with representatives of the financial intelligence unit of one of the participating countries. UNODC provided expert advice, which facilitated the transfer by the

money service provider of crucial information in both Russian and English, to the financial intelligence unit of Ukraine for further investigation.

9. As part of the criminal assets southern hub (CASH) initiative of the regional programme for Afghanistan and neighbouring countries, UNODC co-chaired a joint interregional workshop on the theme of "Supporting successful prosecutions and other disruptions by building, enhancing and networking financial investigation capacity in national law enforcement agencies" that was held in Tashkent from 13 to 15 May 2015. The workshop was convened in partnership with a Financial Action Task Force-style regional body, the Eurasian Group on Combating Money-laundering and Financing of Terrorism, and the Organization for Security and Cooperation in Europe (OSCE). It was attended by over 40 participants from 11 countries, representing law enforcement agencies and financial intelligence units. At the plenary meeting, participants concluded that there was a need to develop more comprehensive and networked systems for training for Member States on combating money-laundering and the financing of terrorism, with the support of the Eurasian Group, OSCE and UNODC. Participants in the plenary also recognized the critical importance of involving financial intelligence units in supporting the development of capabilities for combating money-laundering and the financing of terrorism in law enforcement agencies. It is anticipated that the implementation of those recommendations will be supported by the UNODC initiative on the networking of law enforcement training institutions (TrainNet) and its recently launched Global Programme for Building Efficient Networks against Transnational Organized Crime.

10. A regional workshop on the theme "Illicit use of money and value transfer services: enhancing inter-agency working and financial intelligence" was held in Issyk-Kul, Kyrgyzstan, from 21 to 24 September 2015 as part of the CASH initiative of the regional programme for Afghanistan and neighbouring countries. The workshop was attended by senior experts from Afghanistan, Iran (Islamic Republic of), Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan and Uzbekistan (regional programme countries) and panellists from Lithuania, the Russian Federation and the United Kingdom of Great Britain and Northern Ireland. The workshop was aimed at identifying and sharing good practices, initiatives and typologies in detecting, investigating and disrupting the criminal use of money and value transfer services, in regulating and encouraging community engagement with providers of money and value transfer services, and in determining critical information requirements, collection methodologies and information-sharing channels in relation to the criminal use of such services. The workshop also served as a platform for signing a memorandum of understanding between the financial intelligence units of Afghanistan and Tajikistan. The memorandum was signed on 23 September 2015 and provides a legal framework for enhancing inter-agency cooperation between the financial intelligence units and allowing those units to investigate a key first stage of the illicit financial flows associated with opiates being trafficked along the northern route.

11. UNODC chaired a meeting of the Paris Pact Initiative Expert Working Group on illicit financial flows in Almaty, Kazakhstan, from 1 to 3 June 2015. The meeting was attended by 21 countries, 9 organizations and around 50 delegates, including some from the private financial sector. The Expert Working Group conducted a gap analysis of issues that were identified as priorities by the participants. That resulted

in over 50 recommendations, many of which have been incorporated into UNODC workplans and fundraising strategies for 2016. One specific vulnerability identified was the need for greater public-private sector cooperation in addressing illicit financial flows derived from drug trafficking. UNODC took the opportunity provided by the meeting of the Expert Working Group to invite the head of the Kabul money service providers (hawala) market and a representative from a world-leading money service provider to discuss key issues surrounding private-public sector engagement for reducing the threat posed by the abuse of money and value transfer services. That was the first time a representative from an Afghan money service provider had addressed such a working group. The representative from the world-leading money service provider made an open offer to provide information from their global databases upon request via an official e-mail for intelligence and operational (i.e. non-evidential) purposes only. That offer has subsequently been taken up on several occasions by different Member States. Consequently, one of the core recommendations proposed at the meeting of the Expert Working Group was the need to enhance private sector involvement in activities related to countering illicit financial flows.

12. In October and December 2015, UNODC received requests for assistance from two Member States in South America to support them in the development of frameworks for combating money-laundering to counter threats that they face, including from drug trafficking. In response to those requests, UNODC will conduct workshops related to the nexus between drug trafficking and illicit financial flows in the region in 2016. In addition, it will use its infrastructure in the region, through its network of country and regional programmes, to support the future delivery of specialist assistance on combating money-laundering and the financing of terrorism, subject to the availability of funding. The Eurasian Group, welcomed as a new Paris Pact partner in 2015, and several other Paris Pact partners highlighted a list of jurisdictions in the Caribbean and Central and South America that act as financial centres and are considered particularly vulnerable to money-laundering associated with drug trafficking. Subsequently, the Expert Working Group recommended that UNODC discuss with those jurisdictions the benefits of joining the Paris Pact partnership. Similarly, under its Global Programme against Money-laundering, Proceeds of Crime and the Financing of Terrorism, UNODC discussed with counterparts in South America the benefits of sharing good practices in combating the trafficking of cocaine and good practices developed within the framework of the Paris Pact initiative to combat opiates originating in Afghanistan.

13. The Paris Pact secretariat successfully combined three of the four pillars of the initiative by organizing one joint expert working group that provided sessions for experts in the fields of cross-border cooperation, illicit financial flows and precursors. That resulted in a number of important observations and recommendations that would not have been made otherwise, such as the need to focus financial investigations downstream, on points of diversion of precursors, rather than upstream, at the manufacturing stages.

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III. Implementing institutional systems, procedures and frameworks

14. UNODC presented its new financial disruption strategy at the joint Experts Meeting of the Financial Action Task Force in Mexico in September 2015 and at the Middle East and North Africa meetings of the Task Force in Bahrain in November 2015. Practical financial disruption training sessions were also given in Belarus and the Republic of Moldova, in November and December 2015, respectively, at international workshops attended by representatives of a number of agencies and the private sector. The financial disruption strategy is the result of activity to collate good practices from Member States in modelling the financial infrastructure of criminal and terrorist networks, identifying critical vulnerabilities and developing integrated and coordinated operational plans, which draw on the full range of lawful and proportionate disruption options within the private and public sectors and civil society to deliver sustained, efficient and measurable impact. At the plenary meeting of the Financial Action Task Force held in November 2015, UNODC proposed that it host, in partnership with the Eurasian Group and the Financial Action Task Force, the next joint Experts Meeting of the Task Force in Vienna in May 2016 to address the issue of financial disruption, with topics to include drug trafficking.

15. In March 2015, input was provided to the legislation on combating money-laundering of the Lao People's Democratic Republic. That input was provided through three workshops for the Lao authorities, conducted in cooperation with the World Bank, the United Nations Development Programme and the Office of the Australian Attorney General.

16. In 2015, UNODC received funding aligned to priority areas for technical assistance, which were highlighted in the financial statement submitted prior to the adoption of Commission resolution 58/6. That has allowed UNODC to recruit and place expert advisers on combating money-laundering in South-Eastern Europe (staff) and in the Afghanistan and neighbouring countries region (consultant).

17. The initial prototype of the UNODC continuous professional development system for managing the training and development of the communities engaged in combating money-laundering and the financing of terrorism in Member States has been completed. It is anticipated that initial trials will take place in 2016 with selected Member States.

18. As part of the UNODC CASH initiative (of the regional programme for Afghanistan and neighbouring countries), two five-day courses were delivered in Istanbul, Turkey, in September and October 2015. Approximately 20 participants attended each course. The participants represented countries located along identified routes used by illicit cash couriers: Afghanistan, Iran (Islamic Republic of) and Pakistan (Triangular Initiative), and Afghanistan, Kyrgyzstan and Tajikistan (Afghanistan-Kyrgyzstan-Tajikistan Initiative). Planning is currently under way to repeat the courses in March and September 2016, before moving into a "train-a-trainer" phase. At the country level, UNODC conducted a one-day awareness course on cash couriers in Kabul in October 2015, which brought together a wide range of law enforcement professionals from Afghan agencies to consider and learn techniques for detecting, investigating and disrupting

bulk cash smuggling. A project was also launched by UNODC to develop a process map, including technical assistance needs, for cash seizures by the Inter-Agency Task Force at Kabul international airport, a key exit point for cash being smuggled out of Afghanistan.

19. Under its Global Programme against Money-laundering, Proceeds of Crime and the Financing of Terrorism, UNODC completed the development of a five-day course for professionals in that field on reducing the risks posed by the criminal abuse of money and value transfer services. Those services have been identified by UNODC in its analysis of the Tashkent questionnaire (Paris Pact initiative) and by successive Paris Pact expert working groups as a leading method for drug traffickers to move and store funds. Planning is under way to deliver joint courses, initially to participants from Afghanistan, Iran (Islamic Republic of) and Pakistan, and secondly to participants from Afghanistan, Kyrgyzstan and Tajikistan (in mid-2016). The critical role often played by money and value transfer services in supporting migrant remittances and vulnerable economies will be highlighted. The courses are aligned with the provisions against money-laundering contained in relevant international and multilateral agreements, such as the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988, the United Nations Convention against Transnational Organized Crime and the United Nations Convention against Corruption, and in accordance with national legislation, as well as with the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation of the Financial Action Task Force.

IV. Nexus between illicit financial flows and drug trafficking, and its "business model"

20. In December 2015, UNODC published a report entitled *Drug Money: the Illicit Proceeds of Opiates Trafficked on the Balkan Route*. That was the first research product published by UNODC that focused specifically on the economics of drug trafficking. Further recommendations were made at the meeting of the Expert Working Group to repeat the research on a regular basis to update the information and maintain a continuously improving picture of illicit financial flows, including on the northern and southern opiate trafficking routes. Planning is now under way to deliver a series of regular "common information picture" workshops in 2016, in both the Afghanistan and neighbouring countries region and South-Eastern Europe, to develop and maintain an ever-improving understanding of illicit financial flows, including those derived from drug trafficking.

21. UNODC has supported Member States in analysing illicit financial flows within the context of drug trafficking through the development of its financial disruption strategy (and the associated financial disruption workbook). That includes identifying key vulnerabilities in the business models of drug traffickers and money-laundering networks. At its meeting in Kazakhstan, the Expert Working Group examined and provided a forum for participants to discuss techniques for identifying critical vulnerabilities in the drug-trafficking "business model". The Expert Working Group also affirmed the importance of complementing disruptions of drug trafficking with parallel financial investigations.

V. Recommendations

22. Commission on Narcotic Drugs resolution 58/6 continues to provide a sufficiently detailed and relevant framework for implementing achievable measures to reduce the threat posed by the illicit financial flows associated with drug trafficking. Further, the work of UNODC with Member States in implementing the resolution contributes to assisting them to implement the calls in the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda to significantly reduce illicit financial flows. The activities undertaken by UNODC between the adoption of Commission resolution 58/6, in March 2015, and 31 December 2015 demonstrate an increasing understanding of illicit financial flows and the development of more effective, cheaper and sustainable disruption activities and systems to build and maintain effective networks of professionals in combating money-laundering and the financing of terrorism at the national, inter-agency and international levels. While significant funding and commitments to fund those activities have been received as a result of the financial statement on Commission resolution 58/6, critical gaps remain in funding projects that are essential to the effective implementation of frameworks and activities in support of it.

23. The Commission on Narcotic Drugs may wish to consider:

(a) Urging Member States to support UNODC in delivering technical assistance on combating money-laundering and the financing of terrorism in order to support them in reducing illicit financial flows, including those associated with drug trafficking;

(b) Urging Member States to consider providing further financial support to UNODC for the provision of technical assistance in support of Commission resolution 58/6, specifically for placing advisers on combating money-laundering and the financing of terrorism in Afghanistan and Pakistan and in Central Asia, and to continue funding the new adviser in South-Eastern Europe, in order to support the development of frameworks on combating money-laundering and the financing of terrorism;

(c) Urging Member States to intensify their efforts to strengthen international and inter-agency cooperation to combat illicit financial flows derived from drug trafficking through implementing the provisions for combating money-laundering and the financing of terrorism contained in relevant international and regional instruments and maintaining cooperation between relevant law enforcement agencies;

(d) Encouraging Member States to continue to promote private-public sector cooperation and coordination;

(e) Encouraging Member States to continue to develop and enhance legislative and institutional systems to combat illicit financial flows linked to drug trafficking;

(f) Reminding Member States to consider the key vulnerabilities in the "business model" of drug-trafficking and money-laundering networks and to encourage them to conduct investigations into drug trafficking in parallel with, and supported by, financial investigations into the financial component of those cases.